Sonoma County
Office of Education

5340 Skylane Boulevard
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(707) 524-2600 ■ www.scoe.org

April 15, 2019

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Superintendent's Office
Santa Rosa City Schools

Diann Kitamura, Superintendent
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401

Dear Ms. Kitamura:

In accordance with Education Code Section 42131, a review of the Santa Rosa City Schools (District) Second Interim Report for fiscal year 2018-19 has been completed by the Sonoma County Office of Education (County). Based upon the multi-year projection and assumptions provided by the District, it appears that the District will meet its financial obligations for the current and two subsequent years. We therefore concur with the District's **positive** certification. This letter addresses various concerns of the County as well as standard reminders.

State Budget

On January 10, 2019, Governor Newsom released his first proposed State Budget for the upcoming 2019-20 fiscal year. We see a continued commitment to the Local Control Funding Formula (LCFF) by providing the statutory cost of living adjustments (COLA), but no additional augmentation in unrestricted funds. For the current 2018-19 year, the LCFF funded COLA remains at 3.70%. LCFF reached full funding in 2018-19 and the 2019-20 year will be funded at COLA only. It is important to remember that COLA only funding is not sufficient to cover pension-related employer increases, step/column costs, and rising Special Education contributions. Thus, the average school district would have to redirect some of its existing resources to cover the rising expenditures. With that in mind, the County suggests LEAs remain cautious, plan to spend conservatively, maintain adequate reserves and think long term.

Some of the major 2019-20 K-12 budget components include:

- $80.7 billion Proposition 98 funding in 2019-20, projected to be based on Test 1
- 3.46% statutory COLA, applied to LCFF base grant for 2019-20; LCFF funding is $63 billion.
- A total of $3 billion in one-time non-Proposition 98 funds to buy down the CalSTRS employer contribution rate (expected decrease or previous rate projections by 1.03% for 2019-20, 1% for 2020-21, and ½% for 2021-22).
- No allocations for discretionary one-time mandate monies were included.

- Governor Newsom acknowledged the rising cost of Special Education services and the proposal includes $576 million to support expanded Special Education services outside a students individualized education program.
- Continues to fund the Systems of Support for school districts in differentiated assistance.

Second Interim and Multi-Year Projection (MYP)

The Second Interim Report MYP indicates an increase in unrestricted fund balance of $+241,561 in 2018-19 and unrestricted deficit spending of -$5,848,085 in 2019-20, and -$8,665,080 in 2020-21, with the State minimum reserve for economic uncertainty of 3% met in all years. Even though the District meets minimum reserve requirements, the County Office remains concerned about on-going deficit spending of this magnitude. We urge the District to review and monitor revenues, expenditures, and fund balances of all funds.

The County commends the District for the intensive work done during 2017-18 on budget practices and the implementation of the board approved Fiscal Recovery Plan and recognizes that a budget committee is still active. For 2018-19, it is vital have sufficient reserves in place to support unexpected changes in projected revenues and expenditures.

The District should continue to analyze revenue and expenditure projections in all sources for validation of projections. Adjustments for updated ADA driven LCFF revenue, and changes in assumptions necessary due to the upcoming Governor's May Revise Budget, and any changes in local revenues and expenditures should be carefully completed for the 2018-19 Estimated Actuals and 2019-20 Budget Adoption. It is highly recommended that a detailed, account-by-account analysis take place to ensure reasonably accurate revenue projections and ending fund balances. The MYP does not include the impact of recent tentative agreements with bargaining units for 2019-20 and beyond. The costs of the impact will reduce fund balance. We urge the District to review and monitor revenues, expenditures, and fund balances of all funds.

The importance of enrollment and average daily attendance analysis is crucial to maintaining staffing levels appropriately, which in turn tie directly to the maintenance of a healthy fund balance and reserve level. The County supports the district's continual exploration of cost cutting measures that will help build or maintain the District's reserves to allow for long term fiscal stability.

Charter Schools

The District reports Accelerated Charter, Charter School for the Arts, Cesar Chavez Language Academy Charter and the French American Charter in a fund other than the General Fund. The Board Approved Second Interim included Fund 09 for the Charters. The 2018-19 ending balance in Fund 09 reported is $3,757,696 with an increase to the fund balance of $184,449. The County recognizes that the District included separate multi-year projections for each individual charter and thanks the District for this transparency.

Collective Bargaining

Based upon the Criteria and Standards, negotiations with all units in the 2018-19 fiscal year are settled. Because these costs make up the largest portion of the district's budget, any salary and/or benefit increase could adversely impact the fiscal condition of the district. We caution the district to ensure that the costs of any future proposed agreement be supported by ongoing revenues to avoid creating or exacerbating structural deficits. Before the district takes any future action on a proposed collective bargaining agreement, Government Code Section 3547.5 requires the district to certify financial projections reflecting the impact of any salary negotiations on the current or two subsequent years. **Sonoma County Office of Education requests copies of the disclosure at the time of board publication.**

Summary

Our Office appreciates the preparation and timely submittal of your 2018-19 Second Interim Budget report. A technical review will be communicated to the business office. **Please see the attached for standard reminders**. If you have any questions, please feel free to call me at (707) 524-2635.

Sincerely,

Shelley Stiles

Shelley Stiles
Director, External Fiscal Services

c:
Dr. Steven D. Herrington, County Superintendent of Schools
Mary Downey, SCOE Deputy Superintendent, Business Services
Rick Edson, Assistant Superintendent, Business Services, SRCS
Joel Dontos, Executive Director – Fiscal Services, SRCS
Nancy Linder, District Fiscal Management Advisor, SCOE

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Standard Reminders ~ All Districts

Collective Bargaining Disclosure

If any collective bargaining settlements are reached during the current year all districts are being reminded of the public disclosure obligation. An important AB 1200 reporting requirement is the statute for tentative collective bargaining agreements to meet the requirements of Government Code Section 3547.5 and Education Code Sections 42131 and 42142, both of which outline the District's responsibilities for public disclosure and budget revisions for collective bargaining agreements. A three-year analysis must be completed to determine the impact of negotiations in future years. The superintendent and chief business officer must certify that the District can meet the costs incurred under the agreement. The governing board must take formal board action to approve the proposed agreement. Please note that within 45 days of the settlement, the District must send to SCOE any revisions to the District's current budget necessary to fulfill the terms of the agreement.

Adopting LCAP Revisions during the period the LCAP is in effect

EC sections 52062(c) and 52068(c) allow districts to adopt revisions to an LCAP during the period the LCAP is in effect if they follow the same process for adopting the LCAP. *EC* sections 52070 and 52070.5 specify that no later than five days after the adoption of an LCAP or annual update to an LCAP, the plan must be filed with the COE. While timelines identified in these sections are reflective of an annual process, statute does provide a process for a revised LCAP to be approved by the appropriate entity.

Submission of Studies, Reports, Evaluations and/or Audits

Education Code Sections 42127 and 42127.6 require districts to submit to the County Office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. They also require the County Office to incorporate that information into the analysis of budgets, interim reports, and the District's overall financial condition.

We request that the District submit to this office any such documents commissioned by the District (e.g. reports done by Fiscal Crisis and Management Assistance Team), or by the State Superintendent of Public Instruction and/or a state control agency any time they are received by your District.

NEW in 2017 ~ Increased Requirements for Debt Management Policy and Practices

Effective January 1, 2017, (per **Senate Bill (SB) 1029,** Hertzberg) issuers must certify on the ***Report of Proposed Debt Issuance*** (http://www.treasurer.ca.gov/cdiac/reporting.asp) that they have:

- Adopted local debt policies concerning the use of debt; and
- The proposed debt issuance is consistent with those policies.

Standard Reminders ~ All Districts (continued)

The issuer's **local debt policies** *must* include (A) through (E), below:

A. The purposes for which the debt proceeds may be used.
B. The types of debt that may be issued.
C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
D. Policy goals related to the issuer's planning goals and objectives.
E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

FCMAT has prepared a Fiscal Alert which provides a **sample Debt Management Policy** which is located at http://fcmat.org/fcmat-fiscal-and-legal-alerts/.

SB 1029 contains a declaration that state and local agencies should adopt comprehensive written debt management policies pursuant to the recommendation of the Government Finance Officers Association (GFOA). The GFOA is a national association of government finance professionals with a shared mission to promote excellence in state and local government financial management. The GFOA provides **best practices** and a link to the ***Debt Issuance Checklist: Considerations When Issuing Bonds*** at http://www.gfoa.org/debt-management-policy (bottom of the webpage).

California Debt and Investment Advisory Commission's (CDIAC) website contains the necessary reporting forms and fees which can be found at the website http://www.treasurer.ca.gov/cdiac/reporting.asp. CDIAC's guidance regarding SB1029 is located at http://www.treasurer.ca.gov/cdiac/ by clicking on "Guidance on 1029 Implementation with SB1029" on the left side of the webpage. Some of its guidance is noted below:

> **Government Code 8855(i)** requires any issuer of public debt to provide a *Report of Proposed Debt Issuance* to the California Debt Investment and Advisory Commission *no later than 30 days before the sale* of such debt.
>
> **Government Code section 8855(k)** ~ Effective January 1, 2017, state and local issuers are required to submit an ***annual** debt transparency report* for any issue of debt for which they have submitted a *Report of Final Sale* during the reporting period. The annual debt transparency report is due to CDIAC within seven (7) months of the close of the reporting period, defined as July 1st to June 30th. This provision makes January 31st the effective deadline for submittal of the annual debt transparency report. Debt issued between January 1, 2017 and June 30, 2017, and reported to CDIAC on or after January 21, 2017 will be required to submit an annual debt transparency report no later than January 31, 2018.

Minimum annual debt transparency report information and additional requirements/stipulations apply. Please see the Guidance from CDIAC for more detailed information.

Reporting Requirements for Proposed Debt Issuances

AB 2274 amended Government Code Section 8855 and is effective January 1, 2015. It requires LEAs to notify the California Debt Investment Advisory Commission (CDIAC) of ***any* proposed debt issuance**, which would include refinancing and other secondary issuances. In addition, the bill established reporting timeframes. No later than 30 days *prior to the sale* of any debt issue, the issuer shall submit a report of the proposed issuance to CDIAC. Not later than 21 days *after the sale* of the debt, the issuer shall submit a report of final sale to CDIAC. Instructions to all of the requirements that CDIAC needs depending on the type of debt transaction and applicable reporting forms are available at: http://www.treasurer.ca.gov/cdiac/reporting.asp

AB 2551 enhances transparency requirements for local bond elections, including Proposition 39 (2000) and two-thirds vote general obligation bonds. The bill requires LEAs attempting to pass local bonds to *submit to their local elections office* the total estimated debt service, including principal and interest, if all bonds are issued, as part of the Tax Rate Statement required pursuant to Elections Code Sections 9400-9401. The aforementioned reporting requirements are applicable to any issuance of debt after AB 2274 adds reporting requirements to debt from bonds already approved by voters. It requires agencies to notify CDIAC of *any* proposed debt issuance, which **would include refinancing and other secondary issuances. The provisions of AB 2551 will be required for any local bond elections after January 1, 2015.**

Reporting Requirements for Non-Voter-Approved Debt

Education Code Section 17150 requires school districts to notify the County Superintendent of Schools and County Auditor at least 30 days prior to the governing boards' approval of the issuance of certificates of participation (COPs) or other non-voter-approved debt secured by real property such as: Lease purchases (LP) secured by real property; Qualified Zone Academy Bonds (QZABs) secured by real property; Revenue bonds; Energy Loans or Bond Anticipation Notes (BANs). Under the new law, the district must provide repayment schedules, evidence of the ability to repay, and costs of issuance as well as information necessary to assess the anticipated effect of the debt issuance. Within 15 days of the receipt of the information, the County Superintendent of Schools and the County Auditor are authorized to comment publicly regarding the district's capacity to repay the debt obligation, based on the information provided.

SB740

Please note that a SB740 funding determination may be required when a charter school offers instructional time in a non-classroom based setting. Charter schools that do not submit a request by the due date may not receive a funding determination, and could have their State apportionment associated with its non-classroom based ADA reduced to zero. SB740 regulations, instructions and form can be found at:
http://www.cde.ca.gov/sp/cs/as/nclrbifunddet.asp .

Additional Standard Reminders for School Districts with Qualified or Negative Certifications

Debt Issuance

The statutory requirements for debt issuance for school districts with qualified or negative interim report certifications are specifically addressed by E.C. Section 42133(a), and read as follows:

"A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, **unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable.** A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification of that fiscal year to be qualified or negative."

E.C. Section 15140 (b) notes that a district that has received a qualified or negative certification in its most recent interim report, may not issue and sell bonds on its own behalf pursuant to this chapter without further action of the board of supervisors or officers of that county or of any other county in which a portion of the school district or community college district is located.

Collective Bargaining

Government Code Section 3540.2 provides added oversight related to the collective bargaining process. Any school district with a Qualified or Negative certification under Education Code Section 42131 **shall allow the county office of education at least ten working days to review and comment on any proposed agreement made between the exclusive representative and the public school employer, or designated representative, before it is ratified.** The school district shall provide the county office with all information relevant to yield an understanding of financial impact of that agreement. The county superintendent shall notify the school district, county board of education, district superintendent, governing board of the school district, and each parent and teacher organization of the district within those 10 days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district.

Per Government Code 3540.2(d), a school district shall, upon request, provide the county superintendent of schools with all information relevant to provide an understanding of the financial impact of any final collective bargaining agreement reached.